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ABSTRACT

As part of an evaluation of the Missouri master plan for higher education, recent patterns of state appropriations are examined, along with a set of assumptions from which fiscal estimates are developed for the future. Since fiscal year (FY) 1979, the appropriations for higher education did not keep pace with inflation. While Missouri higher education had a 122 percent increase in appropriations during the period 1972-1982, the change in constant dollars was actually a negative 5 percent. Public institutions have had to rely more heavily on student fees, which increased by 65 percent between 1980 and 1983 in the four-year institutions and by 51 percent in the two-year colleges. Data comparing actual dollars appropriated to constant dollars for FY 1979-1984 are included. Bar graphs are presented to compare two estimates of general revenue appropriations for FY 1985 and 1986 with current scenarios of available general revenues. Ten assumptions used to calculate revenue estimates are provided. Appendices include assumptions that are specific to each estimate, followed by an abbreviated calculation of the high estimates for FY 1985. (SW)

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MISSOURI GENERAL REVENUE AND HIGHER EDUCATION APPROPRIATION TRENDS AND PROJECTIONS

MASTER PLAN III ASSESSMENT
PROJECT REPORT NUMBER TWO

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MISSOURI COORDINATING BOARD FOR HIGHER EDUCATION

MAY 1983

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MAY 1983

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A Summary of Student Aid Trends, 1978-1982

Missouri General Revenue and Higher Education
Appropriation Trends and Projections

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MISSOURI PUBLIC FOUR-YEAR COLLEGES AND UNIVERSITIES

Central Missouri State University

Harris-Stowe State College

Lincoln University

Missouri Southern State College

Missouri Western State College

Northeast Missouri State University

Northwest Missouri State University

Southeast Missouri State University

Southwest Missouri State University
- West Plains Residence Center

University of Missouri
- University of Missouri-Columbia
- University of Missouri-Kansas City
- University of Missouri-Rolla
- University of Missouri-St. Louis

PUBLIC COMMUNITY/JUNIOR COLLEGES

Crowder College

East Central College

Jefferson College

Metropolitan Community Colleges
- Longview Community College
- Maple Woods Community College
- Penn Valley Community College
- Pioneer Community College

Mineral Area College

Moberly Area Junior College

St. Louis Community College
- St. Louis Community College at Florissant Valley
- St. Louis Community College at Forest Park
- St. Louis Community College at Meramec

State Fair Community College

Three Rivers Community College

Trenton Junior College

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Foreword

The steady decline in state and federal support of higher education prompted the Missouri Coordinating Board for Higher Education in December 1981 to direct its staff to evaluate the State Master Plan for Higher Education, **Master Plan III,** published in 1978.

The Master Plan III Assessment Project was organized to describe major trends in Missouri over the past several years and the implications of these trends for higher education; to project the trends for the future and their implications for higher education in Missouri; and to specify a range of public policy alternatives available to the educational and political decision makers who hold the responsibility for higher education.

The issues of access, diversity, and funding comprise the major areas of study for the Master Plan III Assessment Project and are the issues for which public policy alternatives will be developed. This report is the second descriptive report on the trends in Missouri higher education.

Shaila R. Aery
Commissioner of Higher Education

INTRODUCTION

The following report focuses on the financing of higher education in Missouri over the past five years. **Master Plan III** assumed level state support. The failure of this funding assumption was a key factor in triggering the assessment of the Master Plan. The percentage of general revenue appropriated to higher education declined from 18.8 percent in Fiscal Year 1977 to 15.4 percent in Fiscal Year 1983. Budget withholdings and inflation have further reduced the impact of these appropriations to the point that higher education has had an actual decline in constant dollar appropriations. Even the most optimistic projections for Fiscal Years 1985 and 1986 provide little reason to expect that the financial difficulties of the system of Missouri public higher education will be resolved by sufficient appropriations to offset recent losses.

These facts, combined with slow economic growth and the potential impact of the Hancock Amendment and other legislation upon available revenues, have necessitated a careful review of current and future fiscal realities. This report presents recent patterns of state appropriations followed by a set of assumptions from which fiscal estimates are developed for future years. A good understanding of these assumptions is critical to analyze the events that must occur in order to attain a given level of funding.

From such an analysis, it is concluded that, in order for higher education to receive in Fiscal Year 1985 an appropriaton of $365 million, or $17 million less than was recommended by the Coordinating Board for Fiscal Year 1984, some combination of the following events must occur:

1. **Rapid growth in the personal income of Missouri citizens during this (1983) calendar year.** The revenue limits imposed by the Hancock Amendment for Fiscal Year 1985 are based upon the rate of growth in personal income in calendar year 1983. Assuming that the Hancock Amendment retains its present form, such an increase would raise the Fiscal Year 1985 limit to a more acceptable level. However, most of the current forecasts rule out such rapid growth. Instead, they point to a modest rate of real economic growth with a relatively low rate of inflation; this leads to an anticipated growth rate in personal income of 7.25 to 8 percent. This range appears to be borne out by the recent historical trend, which shows the rate of growth in personal income declining from 10.4 percent in calender year 1980 to only 6.6 percent in calendar year 1982. This is far below the 11 percent rate of growth that was used to generate the highest estimates included in this report.

2. **Reversal of the recent trend of spending relatively greater proportions of state revenue on basic social services, capital debt retirement, and other state services and less on education.** Because a substantial proportion of the state budget is allocated to service programs, such as welfare and medical programs, that are mandated by law, there is a limit to the degree to which such a trend can be reversed. Only a significant shift in state and federal policies would reverse this trend. Also, while higher education benefits directly from any increase in capital expenditures, especially for maintenance and repair, such

expenditures will somewhat limit the revenue available for other services. Thus, public higher education, which depends upon general revenue as its primary source of funding, finds itself competing for increasingly scarce resources.

3. **A repeal or significant modification of the Hancock Amendment.** Under this amendment, which limits the amount of state revenues that can be collected, the state is faced with a potential refund in general revenue of $150 million in Fiscal Year 1984 and large refunds in Fiscal Years 1985 and 1986. As the appropriation estimates on pages 10 and 11 indicate, this would severely reduce the general revenue available for higher education. Only repeal, significant modification, or certain court interpretations of the amendment would diminish its importance in future budget projections.

This report presents information for discussion of these issues. The first part of the report presents a summary of the recent history and current state of the appropriations for higher education in Missouri. The displays in this section compare the actual appropriations or recommendations to the same in constant dollars as calculated using a very conservative inflation index.

The second part of the report presents forecasts of the expected general revenue appropriated for Fiscal Years 1985 and 1986. The displays in this section focus upon estimates of the general revenues available for appropriation or reserves and the anticipated portion of these revenues appropriated to higher education. A discussion of the assumptions and methodologies used to develop these estimates is also included in the second section.

RECENT HISTORY

Since Fiscal Year 1979, Missouri has experienced an uneven growth in the amount of general revenue expended for higher education. As display #1 on page 4 and display #2 on page 5 show, the recommended appropriation under the House Committee substitute for House Bill #3 is only $338.3 million. This is a $58.7 million, or 21.0 percent increase over the amount appropriated in Fiscal Year 1979. This translates to only a 4.2 percent annual increase over this time period, while the costs of higher education increased at an 8 percent annual rate. Clearly the appropriations for higher education did not keep pace with inflation. During this same period, general revenue appropriations to all of state government increased by 47 percent or 9.5 percent annually.

This recent trend is consistent with the longer-term trend of the last decade: while Missouri higher education had a 122 percent increase in appropriations during the period of Fiscal Years 1972 to 1982, the change in constant dollars was actually a negative 5 percent. Combined with a substantial increase in the number of new programs and expansion of the physical plant, the decrease in the constant dollar appropriations of general revenue has placed a severe strain on the public university and college system.

These problems have forced the public institutions to rely more heavily on student fees, which have increased by 65 percent over the last three years in the four-year institutions and by 51 percent in the two-year colleges. During this same time period, there has been a 23 percent loss, due to inflation, in campus-based student financial aid.

Addendum To Recent History

Since the presentation of this report to the Coordinating Board for Higher Education in April, two events have occurred that may have significant impact upon the general revenue appropriations for higher education. The first was a decision by County Circuit Court Judge Byron Kinder on the Hancock Amendment. Prior to this decision it was uncertain whether or not the one cent sales tax increase that was approved by voters under Proposition C in November 1982 should be considered state revenue. Judge Kinder argued in his decision that, technically, voters had repealed the old three cent sales tax and replaced it with a new four cent tax. As the Hancock Amendment excludes from the calculation of the revenue limit all revenues approved by popular vote after 1980, Kinder interpreted this to mean that all sales tax falls outside of the limit. As sales tax revenues account for approximately forty percent of the total general revenue budget, this means that, unless this decision is successfully appealed, it effectively nullifies the impact of the Hancock Amendment upon state revenues.

Also, because of recent actions taken in the legislature, it is likely that the Fiscal Year 1984 general revenue appropriation for higher education will be at or near the $341.4 million level recommended by the Governor. This would mean a $3.1 million increase over the House Committee substitute proposal and a $61.8 million, or 22.1 percent increase over the amount appropriated in Fiscal Year 1979. This translates to a 4.4 percent annual increase. Moreover the $341.4 million level recommended by the Governor is only a 3.5% increase over the planned expenditures of general revenue in FY 1983 and is still less than the current rate of inflation.

Senate Resolution 265, which would place a budget maximum of $2,276,355,351 on total FY 1984 appropriations for House Bills 1-13, was offered to the Senate, May 4, 1983. The resolution was read and referred to the Committee on Rules, Joint Rules and Resolutions. If approved, this resolution would suggest a total appropriation for higher education in Fiscal Year 1984 of approximately $341 million.

DISPLAY #1

Comparison of Actual Dollars Appropriated to Constant Dollars

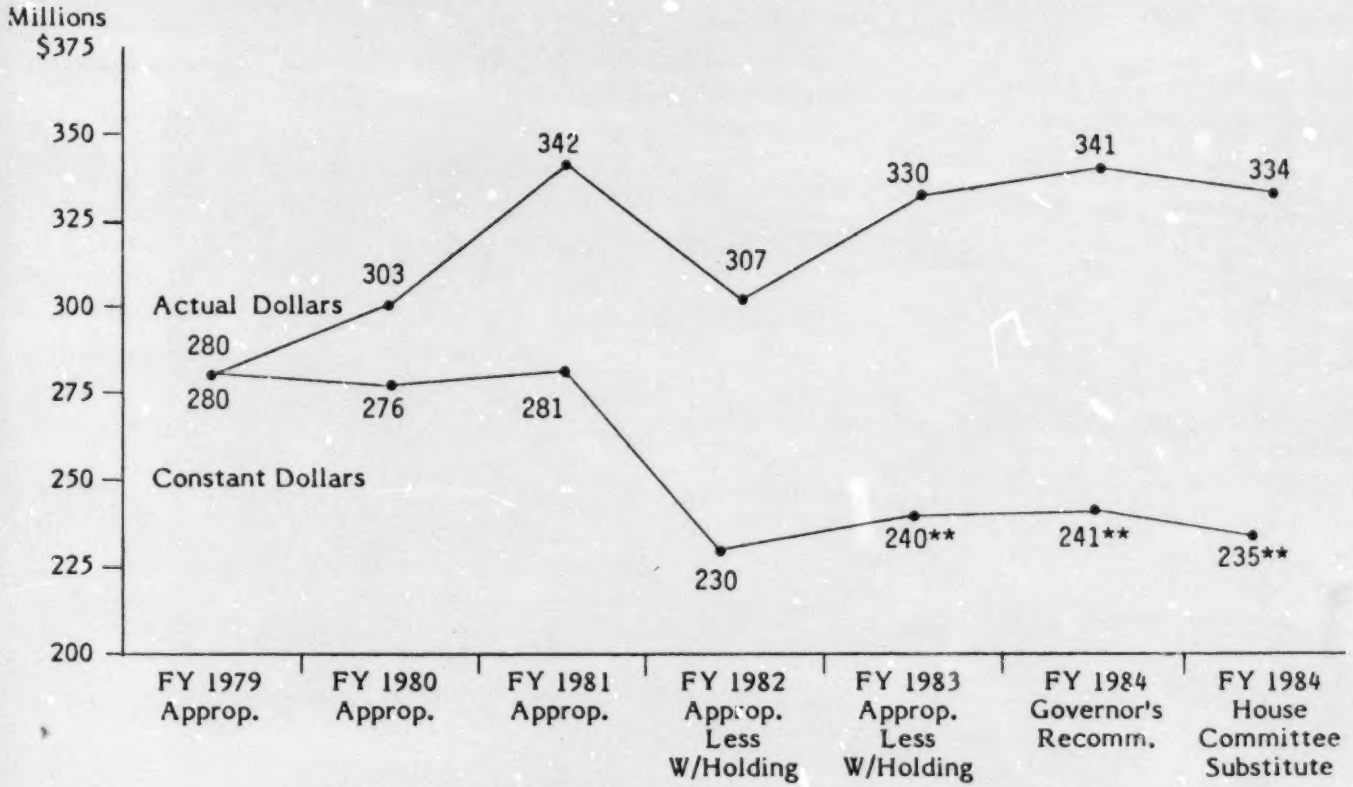
FY 1979 - 1984

	General Revenue	
	Actual Dollars	Constant Dollars*
FY 1979 Appropriation	$ 279,582,321	$ 279,582,321
FY 1980 Appropriation	$ 303,003,809	$ 275,959,753
FY 1981 Appropriation	$ 341,565,389	$ 280,892,590
FY 1982 Appropriation (less withholding)	$ 307,041,119	$ 229,649,304
FY 1983 Appropriation (less withholding)	$ 329,878,657	$ 239,563,295**
FY 1984 Governor's Recommendation	$ 341,420,707	$ 240,776,239**
FY 1984 House Committee Substitution Proposal	$ 338,292,687	$ 238,570,301**

* Constant dollars were determined by dividing the actual dollars by the Higher Education Price Index.

** Estimates were made for the Higher Education Price Index for Fiscal Year 1983 by multiplying the Higher Education Price Index for 1982 by an inflation factor of 3%. The 1984 Index was estimated by multiplying the 1983 Index by an inflation factor of 3%. **The Higher Education Price Index is generally significantly lower than the Consumer Price Index.**

DISPLAY #2
Comparison of Actual Dollars Appropriated to Constant Dollars
General Revenue
FY 1979 - 1984



*Constant dollars were determined by dividing the actual dollars by the Higher Education Price Index.

**Estimates were made for the Higher Education Price Index for Fiscal Years 1983 and 1984 by multiplying the Higher Education Price Index for 1982 by an inflation factor of 3%. The 1984 Index was estimated by multiplying the 1983 Index by an inflation factor of 3%.

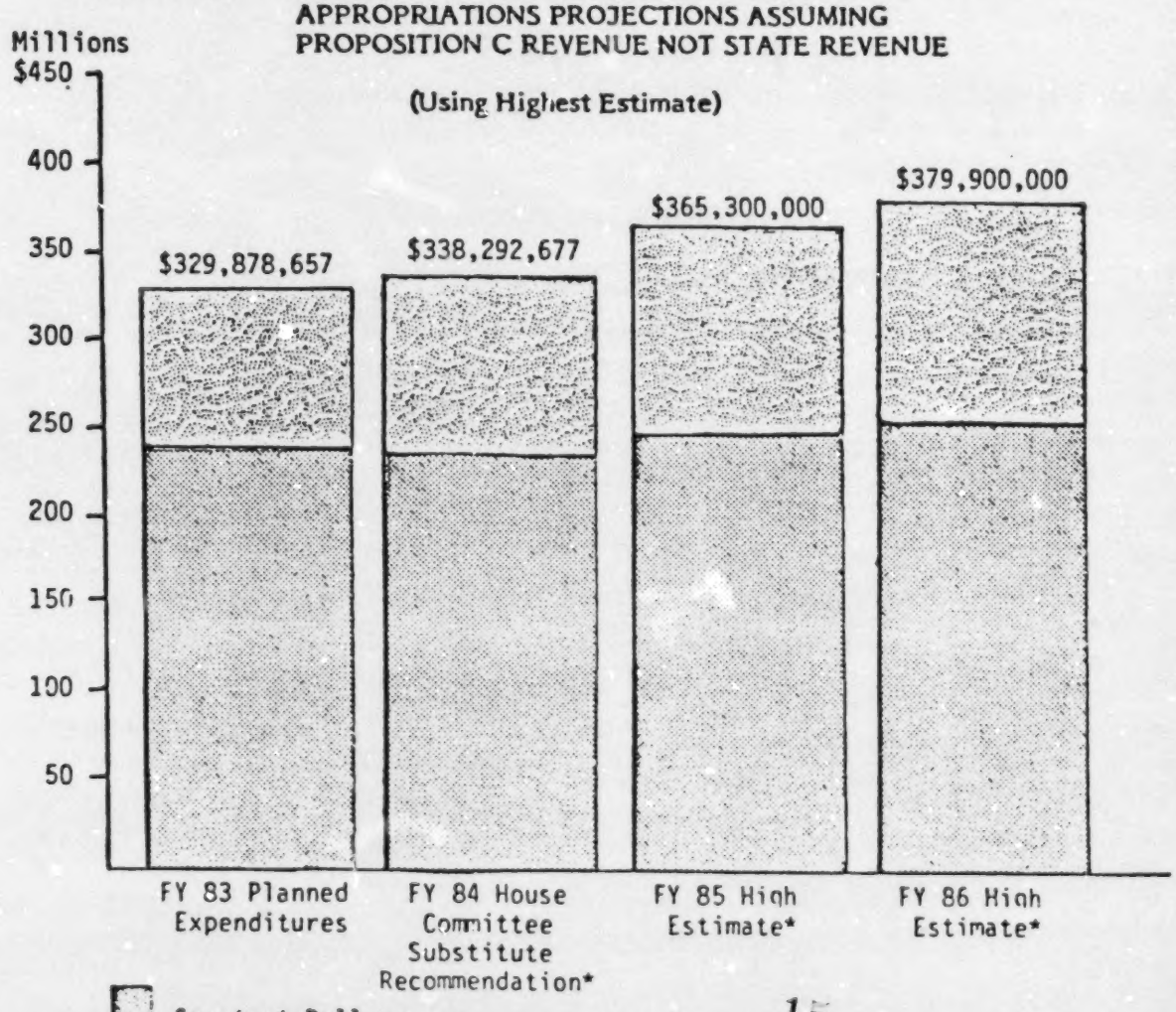
PROJECTIONS

Comparison of Highest and Lowest Estimates to Current Scenarios

In displays #3 and #4, two of the nine estimates of general revenue appropriations for higher education for Fiscal Years 1985 and 1986 are compared with current scenarios of available general revenues. Display #3, below, compares the Fiscal Year 1983 anticipated expenditures in general revenue for higher education and the Fiscal Year 1984 House Committee substitute proposal with the highest estimates of general revenue for Fiscal Years 1985 and 1986. The comparisons are made in real and constant dollars. Display #4, on page 7, does the same for the lowest estimate. It can be concluded from display #3 that, even under the most optimistic estimate, the anticipated increases in higher education appropriations are not extravagant, as the increase to $365.3 million in Fiscal Year 1985 represents only an 8 percent increase over the Fiscal Year 1984 House Committee substitute recommendation.

DISPLAY #3: HIGHER EDUCATION GENERAL REVENUE APPROPRIATIONS PROJECTIONS ASSUMING PROPOSITION C REVENUE NOT STATE REVENUE

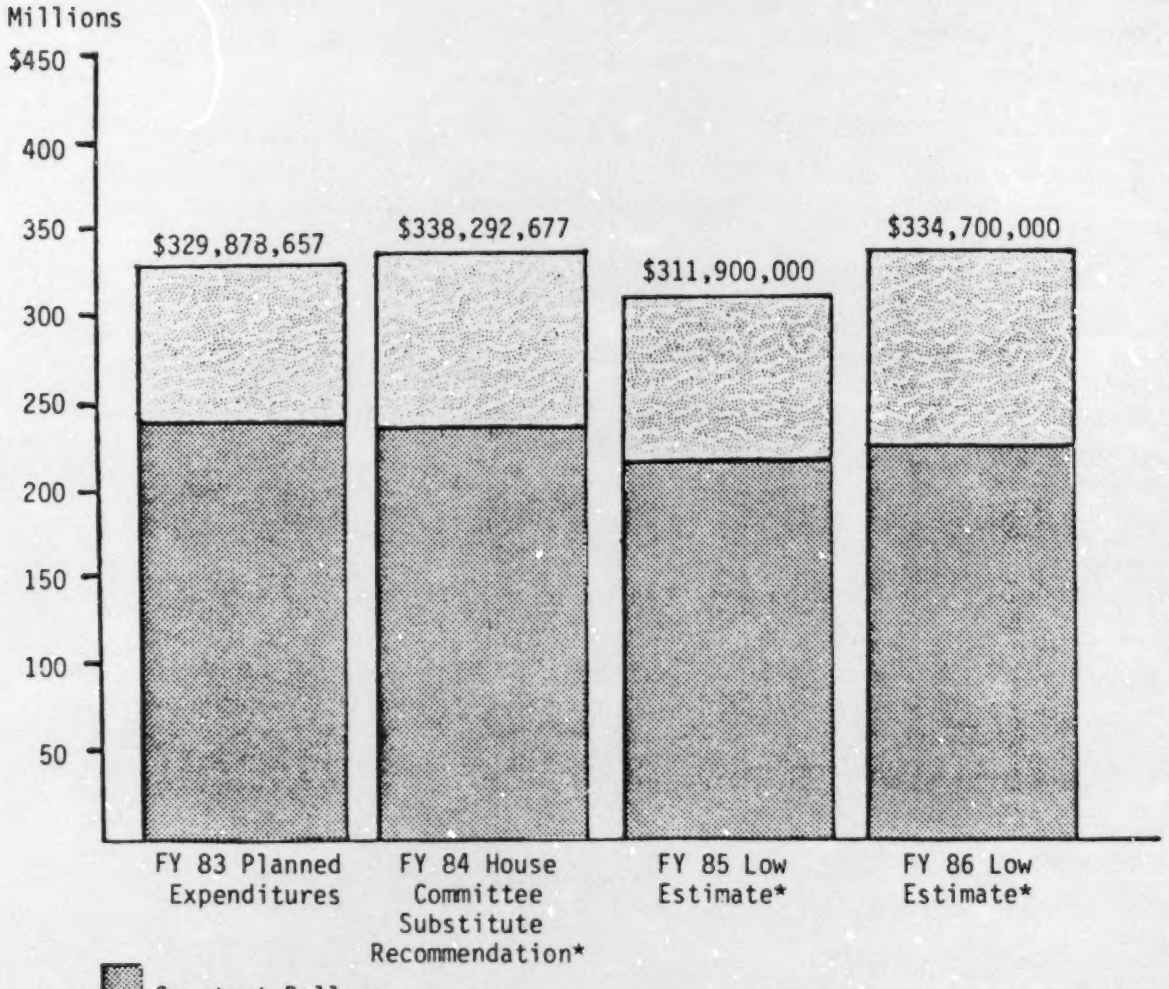
(Using Highest Estimate)



* A 3 percent inflation factor is assumed.

DISPLAY #4: HIGHER EDUCATION GENERAL REVENUE APPROPRIATIONS PROJECTIONS ASSUMING PROPOSITION C REVENUES, STATE REVENUES AND HANCOCK REFUNDS DISTRIBUTED AS ALL GENERAL REVENUE

(Using Lowest Estimate)



* A 3 percent inflation factor is assumed.

Discussion of Assumptions Used to Derive Estimates

As important as a set of reliable revenue estimates are for future fiscal planning, perhaps even more important to such planning is the logical analysis of the underlying assumptions the development of such estimates requires. Once the events that must occur in order to attain a given level of funding are identified, the planning process is enhanced.

The problems with the Hancock Amendment, for example, must be resolved before there exists any certainty in the levels of future funding for the state in general. The final solution will have tremendous impact upon state revenues. Also, estimates of the rate of growth in the personal income of Missourians are imprecise at best. Yet, by making an effort to develop a formal estimation procedure, one at least becomes aware of the complex interrelationship of these factors. The assumptions used to derive the revenue estimates on pages 11 and 12 were made with this focus.

The main assumptions used in deriving the estimates are presented below. In the appendix are the assumptions that are specific to each estimate, followed by an abbreviated calculation of the high estimates for Fiscal Year 1985. It can be seen that the growth estimates used to calculate the high estimates are considerably higher than for the other estimates; they represent the rates of growth that would be necessary to raise the level of general revenue appropriations to higher education to Fiscal Year 1983 appropriation levels.

Assumptions Used to Calculate Revenue Estimates

I. Overall

A) It is assumed that a $45 million cash reserve will be maintained for Fiscal Years 1985 and 1986. While this is a conservative estimate of necessary reserves, it does reflect the current practice of maintaining a low cash reserve.

B) It is assumed that $30 million in revenue enhancements, will be made in Fiscal Years 1985 and 1986. These enhancements include revenues accrued from sources such as back tax collection initiatives, etc.

C) It is assumed that the rate of growth in general revenue is 1.1 times the rate of growth in Missouri Personal Income in any fiscal year. This assumption is consistent with data supplied by the Office of Administration.

D) It is assumed that there will be a 2% rate of growth in other revenues. Other revenues include the gasoline and cigarette taxes which, as consumption taxes, have historically grown very slowly.

E) It is assumed that the following general revenue will be used to service the capital funding debts:

Fiscal Year 1985 - $55 million
Fiscal Year 1986 - $75 million
(Source: The Office of Administration)

F) The estimated general revenue appropriation requirements for Fiscal Years 1985 and 1986 were based upon an analysis of exempted and non-exempted budgetary items. The exempted items are those protected budget items, such as statutorily mandated entitlement programs, that cannot be or are not likely to be reduced in a period of tight fiscal conditions. The non-exempted items are those items that are not protected and are thus more likely to suffer reductions.

The determination of exempted versus non-exempted budget items was based, with minor modifications, upon the House Appropriations Committee budget request for Fiscal Year 1986.

G) It is assumed that tax refunds will grow at the same rate as the growth in the respective tax revenues. This assumption may somewhat inflate the actual refunds, but, after discussion with the Office of Administration, it was felt that this represented the most accurate assumption currently available.

H) A $3 million annual growth in Proposition C Revenues.

I) A $1 million annual growth in revenues related to the Judicial Article Adjustments. These adjustments were statutorily mandated prior to the passage of the Hancock Amendment and are thus added to the calculation of the revenue limit.

J) Calculation of the Base Ratio for Revenue Limits:

Total State Revenues, Fiscal Year 1981 = $2,249,000,000
Missouri Personal Income, Calendar Year 1979 = $39,581,000,000
$2,249,000,000 / $39,581,000,000 = 0.05672

Discussion and Presentation of Estimates

There are three categories of estimates for each fiscal year, and a low, best guess and high estimate for each category. Thus, there are nine estimates for each fiscal year. In the first category, it is assumed that Proposition C revenues will not be counted as state revenues, but instead will be counted as local revenues. This corresponds to House Bill 310, recently passed by the General Assembly and signed by the Governor. In the second category, it is

assumed that Proposition C revenues will be counted as state revenues, but that refunds will be distributed over all tax sources. This lowers the amount to be refunded as general revenue and thus increases the general revenue available for appropriation. The third category corresponds to the current interpretation of the Hancock Amendment, which requires that all refunds be distributed as income tax refunds. As income taxes are a general revenue, this results in the minimum amount of general revenue available for appropriation.

Display #5, page 11, shows, in millions of dollars, the expected amounts of general revenue generated under each estimate. It also shows the anticipated general revenue refunded under the Hancock Amendment and the resulting general revenue available for appropriation or cash reserves. It can be seen in the display that the anticipated refunds under the Hancock Amendment for the high estimates are lower than for the other estimates. This is because a higher rate of growth of Missouri Personal Income is used for the high estimate (11.0%) than for the other estimates (6.6%). (See appendix, page 13 for a discussion of the assumptions used to generate the estimates.)

Display #6, page 12, shows, in millions of dollars, the anticipated general revenue appropriations for higher education in Fiscal Years 1985 and 1986 and the percentage of the total general revenue appropriations that they represent. It can be seen in this display that both the low and best guess estimates show a drop from current levels in the percentage of total general revenue appropriated to higher education; this is true for both fiscal years. The assumptions which were used in calculating the high estimates resulted in a return of the percentage to the appropriated levels of Fiscal Year 1983. The display also shows that, under the low and best guess estimates, if the Hancock Amendment were triggered, one should expect in Fiscal Year 1985 a sharp drop from current levels in the appropriation to higher education, and a smaller reduction in Fiscal Year 1986. Only under the high estimate would higher education receive a moderate increase in appropriations.

DISPLAY #5. ESTIMATES OF GENERAL REVENUE, FY 1985 AND FY 1986 (IN MILLIONS OF DOLLARS)

	Fiscal Year 1985			Fiscal Year 1986		
	General Revenue Generated (less tax refunds)	General Revenue Refunded under Hancock Amendment	General Revenue Available for Appropriation and Reserves	General Revenue Generated (less tax refunds)	General Revenue Refunded Under Hancock Amendment	General Revenue Available for Appropriation and Reserves
Proposition C Revenues not Counted as State Revenues:						
Low Estimate	2,347.5	-0-	2,347.5	2,539.9	-0-	2,539.9
Best Guess Estimate	2,364.7	-0-	2,364.7	2,577.1	-0-	2,577.1
High Estimate	2,459.3	-0-	3,459.3	3,799.9	-0-	2,779.9
Proposition C Revenues Counted as State Revenues (Refunded over all tax sources):						
Low Estimate	2,347.5	91.3	2,256.2	2,539.9	84.2	2,455.7
Best Guess Estimate	2,364.7	105.3	2,259.4	2,577.1	108.5	2,468.6
High Estimate	2,459.3	79.6	2,379.7	2,779.9	52.0	2,727.9
Proposition C Revenues Counted as State Revenues (Refund General Revenue Only):						
Low Estimate	2,347.5	113.0	2,234.5	2,539.9	103.0	2,436.9
Best Guess Estimate	2,364.7	130.2	2,234.5	2,577.1	132.5	2,444.6
High Estimate	2,459.3	97.7	2,361.6	2,779.9	62.6	2,717.3

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DISPLAY #6. ESTIMATES OF GENERAL REVENUE APPROPRIATIONS FOR HIGHER EDUCATION, AND PERCENTAGE OF TOTAL GENERAL REVENUE APPROPRIATED, FY 1985 AND FY 1986 (IN MILLIONS OF DOLLARS)

	Fiscal Year 1985				Fiscal Year 1986			
	General Revenue Available for Approp. and Reserves	Total General Revenue Approp.	Higher Education Approp.	% of Total Approp.	General Revenue Available for Approp. and Reserves	Total General Revenue Approp.	Higher Education Approp.	% of Total Approp.
Proposition C Revenues not Counted as State Revenues:								
Low Estimate	2,347.5	2,302.5	334.7	14.5	2,539.9	2,455.7	349.6	14.2
Best Guess Estimate	2,364.7	2,341.3	340.9	14.6	2,577.1	2,455.7	354.1	14.4
High Estimate	2,459.3	2,376.7	365.3	15.4	2,779.9	2,470.3	379.9	15.4
Proposition C Revenues Counted as State Revenues (Refunded over all Tax Sources)								
Low Estimate	2,256.2	2,211.0	314.9	14.2	2,455.7	2,410.7	340.1	14.1
Best Guess Estimate	2,259.4	2,214.4	319.9	14.4	2,468.6	2,423.6	344.5	14.2
High Estimate	2,379.7	2,334.7	355.9	15.2	2,727.9	2,470.3	379.9	15.4
Proposition C Revenues Counted as State Revenue (Refund General Revenue Only)								
Low Estimate	2,234.5	2,189.5	311.9	14.2	2,436.9	2,391.9	334.7	14.0
Best Guess Estimate	2,234.5	2,189.5	315.8	14.4	2,444.6	2,399.6	341.0	14.2
High Estimate	2,361.6	2,316.6	350.1	15.1	2,717.3	2,470.3	379.9	15.4

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APPENDIX

Estimate-specific Assumptions:

A) Low Estimates:

1) Estimated Rate of Growth in Missouri Personal Income:
Calendar Year 1983 - 6.60%
Calendar Year 1984 - 7.00%
Calendar Year 1985 - 7.00%
Calendar Year 1986 - 7.50%

2) Estimated Percentage Increases in General Revenue Appropriations for Higher Education:

	FY 1985	FY 1986
Exempted Programs	2.5%	2.5%
Non-Exempted Programs	0.0%	0.0%

B) Best Guess Estimates:

1) Estimated Rate of Growth in Missouri Personal Income:
Calendar Year 1983 - 6.60%
Calendar Year 1984 - 7.25%
Calendar Year 1985 - 7.75%
Calendar Year 1986 - 8.25%

2) Estimated Percentage Increases in General Revenue Appropriations for Higher Education:

	FY 1985	FY 1986
Exempted Programs	2.5%	2.5%
Non-Exempted Programs	2.5%	2.5%

C) High Estimates:

1) Estimated Rate of Growth in Missouri Personal Income:
Calendar Year 1983 - 11.00%
Calendar Year 1984 - 11.50%
Calendar Year 1985 - 11.75%
Calendar Year 1986 - 12.0%

2) Estimated Percentage Increases in General Revenue Appropriations for Higher Education:

	FY 1985	FY 1986
Exempted Programs	7.0%	4.0%
Non-Exempted Programs	7.0%	4.0%

Abbreviated Calculation of High Estimates:

I. Assume: 1) An 11.0% growth in Missouri Personal Income in Calendar Year 1983; 2) a 12.9% growth in General Revenue in Fiscal Year 1985.

II. Revenue Limit, Fiscal Year 1985:

Calendar Year 1982 Mo. Personal Income =	$50,859,000,000
Estimated Rate of Growth	x 1.11
Calendar Year 1983 Mo. Personal Income	$56,453,500,000
Base Ratio	x .05682
	$ 3,207,700,000
Retainable 1% and Judicial Salary adjustments	50,100,000
Revenue Limit, Fiscal Year 1985	$ 3,257,800,000

III. Calculation of Total State Revenues and Hancock Refund, Fiscal Year 1985:

	Exclude Prop. C Revenues	Include Prop. C Revenues
Fiscal Year 1985 Revenues:		
General Revenue	$ 2,679,500,000	$2,679,500,000
Other State Revenue	568,300,000	568,300,000
Less Tax Refunds:	(231,400,000)	(231,400,000)
Proposition C. Revenues	-0-	307,000,000
Total State Revenues	$ 3,016,400,000	$3,323,400,000
Difference (Limit-Revenue)	241,400,000	(65,600,000)
Return 1%	-0-	(32,100,000)
Refund of Revenues, FY 1985	-0-	97,700,000

IV. Calculation of Available General Revenues, Fiscal Year 1985:

	Exclude Prop. C Revenues	Include Prop. C Revenues, Refund over all tax sources	Include Prop. C Revenues, Refund Gen. Rev. Only
General Revenue	$ 2,679,500,000	$ 2,679,500,000	$2,679,500,000
Less Tax Refunds:	220,200,000	220,220,000	220,200,000
Less Hancock Refunds:	-0-	79,600,000	97,700,000
Available General Revenue	$ 2,459,300,000	$ 2,379,700,000	$2,361,600,000